

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 704 – HB 1734**

March 9, 2009

**SUMMARY OF BILL:** Creates a new tax for the privilege of acting as an employer and paying compensation for services rendered by employees not residing in Tennessee. The employer privilege tax shall be three percent of the compensation paid to non-resident employees. Authorizes an employer to recover paid employer privilege taxes from respective non-resident employees.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue –**

**\$36,450,000/FY09-10**

**\$48,600,000/FY10-11 and Subsequent Years**

**Increase State Expenditures -**

**\$1,558,700/FY09-10**

**\$1,393,700/FY10-11 and Subsequent Years**

**Assumptions:**

- The Department of Revenue (DOR) projects the total taxable payroll of non-resident employees to be \$1.8 billion for 2009. This is based from gross state product data and personal income data derived from the U.S. Bureau of Economic Analysis.
- Total taxable payroll remains constant in subsequent years.
- A ninety percent compliance factor.
- The increase of state revenue is estimated to be \$48,600,000 per year ( $\$1,800,000,000 \times 3.0\% \times 90.0\% = \$48,600,000$ ).
- DOR will require 23 additional positions for administering a new tax (three in the Taxpayer Verification Services Division and 20 in the Audit Division). The associated increase to recurring state expenditures is estimated to be \$1,393,700 per year (\$784,500 salaries, \$444,000 benefits, \$165,200 other). Associated one-time state expenditures of \$126,000 for computers, software, communications, etc.
- Additional one-time state expenditures for computer and software modifications to DOR systems estimated to be \$387,400.

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- The first-year impact is estimated to be 75 percent of the first full-year impact due to October 1, 2009 effective date. As a result, the total increase to state expenditures for FY09-10 is estimated to be \$1,558,700 [(\$1,393,700 x 75.0%) + \$126,000 + \$387,400 = \$1,558,675].

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

/rnc